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Foreign Economic Trends and Their Implications for the United States

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COTE D'IVOIRE

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Key Economic Indicators

(In millions of current U.S. dollars unless noted)

	1986	1987	1988
Income, Production, Employment			
Population (million)	10.5	11.1	11.6
GDP	9377	10375	9990
GDP/capita current $	876.0	835.0	903
GDP/capita (IBRD)	730	750	680
Real GDP Growth	3.4	-1.6	-6.4
Consumer Prices (%)	6.8	5.2	7.5
Central Gov. Spending as % of GDP	19	21	20
Production			
Coffee (OOO's MT)	270	254	216
Cocoa (")	590	544	785E
Cotton (" exports)	79	71	83
Rubber (" exports)	48	52	51
Agriculture and Petroleum GDP	-0.8	-2.0	N/A
Industry, Energy and Construction GDP	5.9	2.5	N/A
Balance of Payment			
Exports	3,802.0	2,791.9	2,150.2
Imports	1,990.9	1,644.0	1,304.8
Trade Balance	1,811.1	1,147.9	845.4
Foreign Debt (Billions $)	7.0	8.1	N/A
Debt Service (before rescheduling)	1,554	1,336	1,480
Debt Service Ratio	38	40	59
U.S. Cote d'Ivoire Trade*			
Exports to (FAS)	59.6	83.0	75.1
Imports from (CIF)	453.6	404.0	313.4
U.S. Exports as % of total	2.3	3.0	3.5
U.S. Imports as % of total	12.3	11.8	13.1
Ave. CFA/$Exchange Rate*	346	301	298

E = Estimate
N/A = Not Available
* IBRD estimate from World Development Report.

SUMMARY

Cote d'Ivoire's vulnerability to factors beyond immediate control --in particular international commodity prices and exchange rates--has been demonstrated since 1986 as the combined effects of low or falling cocoa and coffee prices, and the decline of the U.S. dollar have cut export earnings by over 50 percent. The dramatic loss of foreign income has plunged the domestic economy into a recession marked by a critical domestic liquidity shortage, a downturn which caps a decade of economic hard times during which per capita income may have fallen 30 percent. The government's accounts have been pushed into very large deficit in part because government-guaranteed producer prices were substantially above the world prices for coffee and cocoa.

The Government of Cote d'Ivoire recently negotiated a new International Monetary Fund (IMF) financial rescue package, which should be associated with 12 World Bank sectoral and project loans and completed by new Paris and London Club reschedulings. The previous package, negotiated in early 1987, was never implemented as a new decline in cocoa prices and other developments undermined prior assumptions. Rather than complete a new agreement immediately, the government chose to withhold the Ivoirian cocoa crop from the market in an attempt to drive up the prices, although the policy was modified in late 1987 by the sale of 200,000 tons and provision for the storage in Europe of an additional 200,000 tons. With the conclusion of another large sales contract in June 1989, the government appears to have abandoned its restrictive sales policy.

Austerity has been the watchword of the 1980s for Cote d'Ivoire as IMF and World Bank programs have been in place for most of the decade. In addition to continued fiscal restraint, which has reduced investment levels to about 12 percent of GDP from around 24 percent at the end of the 1970s, the government has pursued structural reforms in the public and foreign trade sectors. Recent lean years follow two decades during which Cote d'Ivoire's pro-business policies helped produce economic growth rates of over 7 percent a year, which made possible the development of an extensive agricultural export sector, the construction of an impressive infrastructure, and the education of a managerial class.

CURRENT ECONOMIC SITUATION AND TRENDS

ECONOMIC POLICIES

A Decade of Austerity: Weak commodity prices, a huge foreign debt burden and shortage of foreign financing have forced Cote d'Ivoire to pursue economic austerity policies throughout the 1980s. In the late 1970s Cote d'Ivoire, like many countries, resorted to foreign borrowing to finance ambitious investment programs when export earnings were severely limited. Foreign borrowing needs

were inflated when the public sector enterprises, developed as an integral part of the investment program, generated ballooning deficits rather than revenues. By 1980, the government was in financial trouble and turned to the IMF for assistance.

IMF programs have been in place for much of the time since, supplemented by World Bank structural adjustment loans. Public sector spending rose only 1.4 percent between 1982 and 1986, as civil servant salary levels were frozen, benefits reduced, and the number of new entrants limited. Subsidies were cut back, and, most dramatically, investment was cut from a level equal to about 24 percent of GDP at the beginning of the decade to about 12 percent in 1986. Working with the World Bank, Cote d'Ivoire privatized significant public sector investments, improved the management of some of the remaining public sector enterprises, and implemented a reform of the import tariff system.

Renewed Financial Crisis: The collapse of coffee and cocoa prices since 1986 has provoked a new and as yet unresolved public sector financing crisis. Coffee prices fell nearly 81 percent, and cocoa prices nearly 46 percent between 1986 and 1988, contributing to a 35 percent decline in Cote d'Ivoire's export revenue. As a result, Caisstab, the public sector marketing agency, which traditionally produced large surpluses that provided financing for public sector investments, has recorded unprecedented large deficits for the past three years. By 1988, while central government spending, at CFA 650.8 billion, was the equivalent of 20 percent of GDP, the deficit had expanded to the equivalent of 13.5 percent of GDP.

After nearly a decade of austerity, the government reacted to this new loss of resources by declaring a moratorium on foreign debt payments in May 1987, and a London Club accord was initialled in April 1988. However, a new plunge in cocoa prices and disappointing tax receipts undermined Cote d'Ivoire's ability to meet IMF and London Club obligations, and the government both fell out of compliance with the IMF in the first quarter of its program and failed to make its initial interest payment under the London Club agreement.

Taking on the International Cocoa Market: Faced with the new collapse of cocoa prices and unwilling to implement a cut in the current market prices, the government began withholding the Ivoirian cocoa crop from the market in early 1988 in an ultimately unsuccessful attempt to drive up the world price. In late 1988, abandoning a no-sale policy, the government concluded a deal with a French firm for the sale of 200,000 tons of the current crop, while restricting the supply of cocoa to the market by providing for the storage of an additional 200,000 tons in Europe. Facing a critical domestic liquidity shortage and with a substantial portion of the record 800,000 ton 1988/89 crop still unsold, the government signed a new deal in mid-June for the sale of as much as 280,000 tons of the current crop with a U.S. firm.

Talking to the IMF: Following nearly a year in which negotiations with the IMF and foreign creditors were put on hold, the government negotiated a new IMF macroeconomic adjustment program in June and is continuing discussions with the IBRD for sectoral adjustment loans in agriculture, energy, and water to fill a financing gap estimated at $3 billion for 1989. A steep cut in the cocoa producer price, from CFA 400/kilo to CFA 250/ kilo, was announced for the "small" crop harvested between July and September, additional measures are expected to apply to the October "main" crop. The government faces the dilemma that it is difficult to identify new, productive cost savings or revenue sources which are not politically sensitive. The government's task is further complicated by the fact that membership in the West African Monetary Union complicates use of currency or exchange rate tools.

DEBT MANAGEMENT POLICIES

The Paris and London Club agreements initialled in December 1987 and April 1988 respectively extended relatively generous terms to Cote d'Ivoire. The Paris Club agreement, Cote d'Ivoire's fourth, provided for the rescheduling of 100 percent of principal and 95 percent of interest over 10 years with 6 years grace. The London Club agreement provided for the rescheduling of the entire stock of principal due through 1995 over a period of 14 years with 5.5 years grace, and also extended CFA 43 billion ($140 million) in new money.

Since the government failed to make its first interest payment under the London Club and has in fact made no commercial debt repayments since May 1987, the London Club accord has never taken effect. The government has met most of its obligations to official creditors, though at times with difficulty. Arrears carried over into 1989 may be as high as $1 billion. New Paris and London Club negotiations are expected to begin shortly after approval of a new IMF letter of intent.

ECONOMIC AND FINANCIAL DEVELOPMENTS

Cote d'Ivoire chose a development strategy based on agriculture early in the independence period, and the sector, which accounts for 32 percent of GDP, continues to dominate the economy today. Cote d'Ivoire is the world's largest cocoa producer and the fourth largest producer of coffee; these two crops accounted for about 55 percent of export receipts in 1988. Cocoa production has expanded at a dramatic pace in recent years, reaching a record 800,000 tons in the 1988/89 season while coffee production has declined to an average estimated at about 239,000 tons. Efforts to encourage diversification into palm oil, rubber, cotton and tropical fruits have been rewarded with impressive increases in production but have thus far not succeeded in substantially reducing Cote d'Ivoire's dependence on the two key crops. An important agricultural exporter, Cote d'Ivoire is largely self-

sufficient in food, importing only rice, wheat, fish, dairy products and red meat in significant quantities. In fact, agriculture for domestic consumption accounts for over half of agricultural income. Industry and construction account for only about 13 percent of GDP, and energy 7 percent; the remainder is composed of the trade, services, and government sectors.

While the principal blow to Cote d'Ivoire's export income came from the collapse of coffee and cocoa prices over the last two years, losses were compounded by problems throughout the agricultural export sector. Cote d'Ivoire's export income fell the equivalent of 5.0 and 6.7 percent of GDP in 1987 and 1988 respectively. Roughly two-thirds of that decline reflected the collapse of cocoa and coffee prices. However, in 1988, while cotton production and exports continued to expand, tropical fruit exports, plagued by problems meeting importer quality standards, fell sharply. Tropical wood exports continued their secular contraction because of severe limits on harvesting made necessary by earlier over-exploitation, and even rubber exports declined slightly. On the other hand, production of food crops expanded at an impressive pace.

On balance, agricultural income fell sharply last year, pulling down the rest of the economy. Real GDP contracted more than 6 percent in 1988, following a 1.6 percent decline the previous year. The recession, after nearly a decade of economic hard times, has witnessed the closure of some firms in the modern sector and layoffs of workers, while the informal sector has expanded. Consumers have cut back on purchases, buying cheaper goods or relying more on food produced at home. Smuggled imports, or imports on which duties have not been paid, have compounded the loss of sales due to the declining purchasing power of consumers. Petroleum output fell nearly a quarter in 1988 because of the progressive exhaustion of existing offshore wells. The construction industry recorded nearly a 15 percent slump. Manufacturing contracted only modestly; output of the food processing industry has held up well.

As one of the seven countries in the West African Monetary Union, (WAMU), Cote d'Ivoire hs its monetary policy set by the West African Central Bank (BCEAO); the exchange rate of the CFA franc used throughout the union, with the assistance of the French Government, is maintained at an exchange rate of 50 to 1 with the French franc. The disruption of the normal marketing chain for cocoa and the government's financing problems have resulted in a severe liquidity shortage, which has continued to cause delays in transfers, particularly foreign transfers. Money supply probably declined in 1988, the result of the balance-of- payments deficit and a restrictive Central Bank policy. Consumer price inflation accelerated from 5.0 to 7.5 percent in 1988, largely because of an extension of the value added tax.

IMPLICATIONS FOR U.S. BUSINESS

About 60 U.S. companies have their offices in Abidjan, many of which are regional offices serving the West Africa area. American assets and investments are concentrated in petroleum, hotels, computers, and service industries. Since 1987 two trade fairs have been organized. The most recent one, USA West Africa Expo '89, held April 6-9, 1989, gathered many business-people from West and Francophone Africa, and confirmed once more the importance of Abidjan as a very active center for U.S. business expansion. Expo '89 also demonstrated the interest of West African consumers in U.S. products and technologies. Another trade fair is scheduled in 1991.

Although investment continues to be limited because of Cote d'Ivoire's financial difficulties, the World Bank and foreign export credit agencies provide funds to various local projects. Best prospects for American exports are in heavy earthmoving and construction equipment, telecommunications equipment, computer software and peripherals, cosmetics and health care products, agricultural and irrigation equipment, pumps, valves and compressors, food production and processing equipment, safety and security equipment, and industrial and agricultural chemicals. About 200 local firms are distributing American equipment, goods and services.

Several support programs exist to help American investors, among them the Trade and Development Program (TDP) of the U. S. International Development Cooperation Agency, the Overseas Private Investment Corporation (OPIC), the African Project Development Facility (APDF), and the African Investment Program of the International Finance Corporation. American banks, insurance companies, accounting companies, a law firm, and consultants have offices in Abidjan. The American Chamber of Commerce Cote d'Ivoire is the only U.S. Chamber of Commerce afiliate in Sub-Saharan Africa, excluding South Africa.

The ability to communicate in French remains the most essential element of doing effective business and living in Cote d'Ivoire. The best way to facilitate ready market access of goods and services is to devote sufficient time, effort, and follow-up to the appointment of a reliable, financially sound agent or distributor. A reputable local dealer/agent can do effective market penetration for U.S. goods and services, but only if marketing literature and technical manuals are provided in French. A simple, cost-cutting "homemade" or mimeographed sheet will do considerable more harm than good in this increasingly sophisticated market.

For items of lower value, price is the single most important market penetration factor. For goods with higher value, attractive financing, quality, and the ready availability of local service facilities are the most critical factors. The business picture, however, is incomplete without the development and nurturing of a personal rapport between buyer and seller or investor and local initiator. This means frequent business trips, reliable correspondence continuity, and a great deal of cultural empathy. An increasing number of Ivoirians trained in the United States are working for American and Ivoirian companies to provide a helpful local connection.

There is continued public and private interest in attracting American investment. The revisions made in 1985 to the 1959 Cote d'Ivoire Investment Code favored investments in areas outside Abidjan, an already developed business area. Also favored are investments which promote Ivoirian employment, particularly in agribusiness and light industry, as well as in low-income housing. Investors are not required to have an Ivoirian partner. While there are clear investment guidelines, each investment is considered separately by Ivoirian Government officials, allowing room for liberal negotiations. Priority status may be given to companies involved in the sectors mentioned above.

The stability of the CFA franc, pegged at 50 CFA to 1 French franc (FF), is a major plus for investors and other businesspeople. Cote d'Ivoire does not restrict the repatriation of capital and profits. While prior authorization is required for transfers outside the Franc zone, permission is routinely granted to properly registered firms, though there have been some recent delays depending upon the liquidity of individual banks.

MAJOR PROJECTS

The African Development Bank and Fund (AFDB) is a key and growing player in the development of African economies. AFDB's Abidjan headquarters is a vital source of timely information on development projects throughout Africa which U.S. suppliers and service firms should tap. (U.S. companies are encouraged to register with AFDB: contact U.S. Department of Commerce, International Trade Administration, Office of International Major Projects or write directly to the U.S. Executive Director/AFDB or the U.S. Foreign Commercial Service/Abidjan.) About a dozen U.S. consulting firms are currently represented by local Ivoirian/U.S. firms specifically to track relevant AFDB projects throughout Africa.

A few major projects are expected to be implemented in the next year or two in Cote d'Ivoire. Recent AFDB loan approvals include a $155 million energy sector adjustment loan and a $77 million agricultural development project. The World Bank and the AFDB are working jointly on preparation of a major agricultural sector adjustment program. In the housing and urban development areas,

where low--and middle-income housing is sorely needed, USAID is providing $23.5 million in commercial loans guarantees for infrastructure improvements in 19 secondary cities and $7 million for Abidjan. In 1988 an implementation agreement was signed between Cote d'Ivoire and USAID for a $17.8 million program for five secondary cities.

Direction et Controle des Grands Travaux (DCGTX), a governmental agency responsible directly to the presidency, has overall supervisory responsibility for all significant projects (road, bridges, hospitals, schools, etc.), no matter how funded. Since March 1987, DCGTX is responsible for all feasibility studies performed on behalf of the government. The U.S. Trade and Development Program (TDP) has already supported two feasibility studies conducted in the country by U.S. consulting firms (telecommunications and airport) and will shortly begin another on the renovation of the Hotel Ivoire. Other studies are expected in the near future.

U.S./Cote d'Ivoire Exports

According to the latest available Ivoirian trade statistics, the United States ranked eighth as an exporter to Cote d'Ivoire in January-November 1988. U.S. exports were $71 million (converted at 300 CFA francs to the dollar), a 25 percent decrease from 1987 sales of $99 million (converted at 300 CFA francs). In 1988 U.S. exports accounted for 3.5 percent of all Ivoirian imports. France led in sales to Cote d'Ivoire with $549 million, or 30 percent of all imports, followed by Nigeria ($194.5 million mostly in petroleum), the Federal Republic of Germany ($96.3 million), Italy ($92.9 million), the Netherlands ($92.7 million), and Japan ($84.5 million).

Cote d'Ivoire, in spite of the current economic downturn, offers many commercial opportunities for U.S. firms. By the use of sound business judgment and attention to details, including the use of French, U.S. companies can be successful.